

# EXHIBIT B

## UFC's merchandise agreement: good in theory, not on paper

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Mixed martial arts is in the business of overnight money-making -- raking in hundreds of millions in its opening years while many (ethically and legally) still push it away. And the biggest player behind the sport's chart-defying growth: the Ultimate Fighting Championship.

Revitalized in 2001 by Zuffa, LLC, the UFC has emphasized its "strong ownership and depth of management" as the brand enhanced the sport's international and national presence, helped it ride the wave of reality TV, put it near the top of premium and network television ratings and guided it into the arena of merchandising and sponsorship to make it a force to be reckoned with in sports business.

And it is in this quick-hit climate that fighters signed to Zuffa, which also owns World Extreme Cagefighting, have recently been asked to sign a merchandise rights agreement as an addendum to their fight contracts.

Born out of Zuffa's desire to license and merchandise its UFC and WEC brands on a global scale, the agreement expands the areas and ways a fighter's name and likeness can be sold -- "apparel, footwear, hats, photographs, souvenirs, toys, collectibles, trading cards, and any and all other similar type products" -- pushing it far beyond the event-related rights afforded to the promoter through bout agreements and promotional contracts.

On June 10, Zuffa jumped into the merchandise market when it announced a four-year deal with JAKKS Pacific to create a line of action figures based on current UFC stars. By fall 2009, Brock Lesnar, Michael Bisping, Forrest Griffin, Anderson Silva, Chuck Liddell and others will have action figures in their image for sale from K-Mart to Toys R Us. (Each, presumably, will have signed some sort of merchandise rights deal in order to be part of the initial campaign.)

In theory, the official UFC and WEC merchandise and licenses would allow athletes to cash checks for doing nothing.

"I'm excited about it, actually, because what we've been working for a number of years on is getting the fighters more money while not fighting -- how to get these guys paid while sitting on the couch," UFC President Dana White told SI.com last week. "And this new merchandising deal that we did with all these guys is a step in the right direction."

But the company's claim has raised concerns by mixed martial artists and their managers over issues such as undefined terms of compensation, the loss of likeness rights in perpetuity and the inability to audit how much Zuffa is making in individual licensing agreements.

While UFC officials declined to comment for this story, some managers have already spoken up, and their fighters have already declined to participate.

Cesar Gracie (who guides The Ultimate Fighter 5 winner Nate Diaz), J.T. Stewart (who handles business affairs for former UFC middleweight champion Rich Franklin) and a handful of other managers who asked not to be identified in this story are in the growing phalanx of those who have voiced concerns. Specifically, they're concerned about the more than half-dozen "deal-breaker" clauses in the agreement -- mainly: the indefinite term of perpetuity, made worse by a fighter's inability to opt out.

Essentially, they claim, the deal allows the UFC to control an important section of a fighter's career by determining which licensing ventures he can or cannot enter into -- during his career and beyond.

"I thought it was a good deal for the UFC," Gracie said. "I thought, financially, it was not a good deal for the fighters. Making a few dollars is better than making no dollars, and that would be the only reason to making a deal like this happen, but there are too many negatives right now, too many ways to get screwed, where it's not worth it in my opinion."

According to the standard agreement, which was obtained by SI.com, clause 1.2 states:

The Merchandise Rights shall be ZUFFA's sole property in perpetuity throughout the world, which ZUFFA shall hold free and clear from any and all claims of Fighter or anyone claiming through Fighter.

Per Article III about compensation, fighters are entitled to "10 percent of the

Gross Revenues and 20 percent of the Gross Royalty Revenues" from all licensed merchandise created by third parties, not the UFC.

"If they do a tenth of what they say they can do, it'll mean a ton of money for Rich," Stewart added. "I hope they make it happen and I hope Rich is a part of it. But you've got to do it in a fair and equitable way that gets the best deal for your client. And their first pass at this was not the best deal. Hopefully, they'll come back with a different version."

A soft spot for some fighters and their managers centered on the UFC's refusal to divulge monetary details of their licensing agreements with companies like JAKKS, making it impossible to know just how much fighters stand to profit from licensed merchandise sales.

"I can't even begin to think about entering into an agreement where I don't have auditing rights and I have to depend upon someone else's expertise and skills to tell me how much money I'm not making," Stewart said.

Licensing and merchandising deals with Bic, JC Penney and US Bank, which has released a UFC Visa credit card, were also announced earlier this month.

To put potential dollar figures in perspective, World Wrestling Entertainment, which in many ways resembles the new UFC merchandising and licensing framework, created \$26.2 million in licensing revenue during the first quarter of 2008, according to the company's SEC filings. While few expect official UFC merchandise to generate that kind of money to start, an ardent fan base makes for the strong possibility that UFC- and WEC-branded products featuring the promotions' brightest stars would be lucrative.

Some of the UFC's top names, hoping for better percentages and control, have already sought out other licensing deals.

"It's a pretty solid income you can generate," said Damon Lau, president of Round 5, a collectibles company out of Toronto that has signed exclusive deals with Franklin, Sean Sherk, Randy Couture, Matt Hughes, Tito Ortiz and Quinton Jackson. "Is it going to buy you a new house? No, absolutely not. We're not talking about selling 10 million Barbies. But they have a lot of fans and they can make a pretty good pay check off of it."

While Liddell, Silva and a select few will negotiate their own merchandising rights agreements -- likely yielding more revenue and a possible revision of the perpetuity clause -- most fighters will need to accept the terms as written if they're going to participate in the broad-ranging yet loosely-defined program.

That puts a younger fighter who's yet to reach the height of his career in a difficult position, Stewart said. "If they sign and then they become popular, they're locked in depending on the deal they cut," he said. "And if they don't sign it, they don't really have anything going."

But not everyone outside of the UFC opposes the agreement. Florida-based manager Dean Albrecht, who consults with close to 40 fighters, including Bisping, Frank Mir and Joe Stevenson, has drawn the ire of other managers as an eager supporter of the merchandising agreement.

Why?

How about Amir Sadollah, for example. Prior to June 21, the 27-year-old Virginian was a surgical technician looking for a break. Now, the newest "Ultimate Fighter," and owner of a six-figure Ultimate Fighting Championship contract, Sadollah is on a career track that has propelled numerous fighters to stardom.

Or how about the ever-growing international fan-base as a result of multiple promotions in England, Ireland, Japan and Canada, and proposed future venues in Brazil, Germany, the Philippines and India.

And how about the promotion of a racially and ethnically diverse pool of athletes -- an aspect many mainstream sports are criticized of lacking today.

"Having a licensing department and licensing director that wants to use your mark, your name, your likeness in a positive way to promote you, and is offering to share in the equity on a go-forward basis, [is a positive thing]," Albrecht said. "[The fighters] don't have to do the accounting of it, they don't have to do the sales of it, they don't have to do the upkeep of it -- all they have to do is show up every once in a while and help promote the brand. I don't see how that's unfair."

While many have raised questions and even flat-out denied the chance to

sign the UFC's new agreement, the organization has not been eager to change the language in the deal save for its biggest stars at this point. That may change if fighters continue to hold out. After all, what good is official UFC merchandise, suggested one manager, if you don't have the name and face of a fighter to go with it?

However, the question that really needs answering as the UFC moves forward on the licensing and merchandise agreement is: How much are the fighters worth in the equation?